

## **Employment Dynamics and Business Relocation: New Evidence from the National Establishment Time Series**

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Employment growth is a major goal of economic policy at both the national and regional levels. Changes in employment are driven by job creation and job destruction, which in turn are made up of six dynamic processes including the birth, death, growth, contraction, and relocation of business establishments. This “demographic” characterization of business establishment and employment dynamics emphasizes that employment change in an economy is the net result of six influences – three that create jobs (births, expansion, and in-migration) and three that destroy jobs (deaths, contractions, and out-migration). Ultimately, we need to understand all six of these dynamic processes to characterize employment change in an economy, and to identify the job creation and destruction processes on which it might be most productive for policymakers to focus in encouraging employment growth.

Moreover, the fact that employment change is the net result of potentially large gross changes – for example, overall expansion of jobs at existing establishments and overall contraction of jobs at other existing establishments – suggests that what often appear as relatively moderate overall changes in employment over time may mask potentially volatile gross job flows. This implies that relatively small changes in any of the gross flows can lead to sharp changes in net job growth.

But tracking a large population of business establishments across time and space, including births, deaths, and relocations, is difficult and costly, and thus data have not

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been available with which to fully capture the underlying processes of employment dynamics. Primarily for this reason, although the importance of understanding the job creation-destruction process has long been widely recognized, systematic empirical research on this topic did not start until quite recently as researchers began to develop appropriate data sources. But this research has continued to face significant limitations imposed by the data.

In this paper, we help introduce a new data source – the National Establishment Time Series (NETS) – which we believe is the first data set that permits a full decomposition of the sources of employment change in regions of the U.S. economy.

There are two key advantages to the NETS data. First, the NETS captures business relocation within the entire country in addition to business births, deaths, expansion, and contractions. This is an important feature because business retention and attraction issues are often at the center of policy debates at the state (and local) level but existing data sources do not provide the necessary information for studying the trend and employment effect of business relocation. Second, the NETS offers significant advantages in accessibility. Access to the alternative (government) data sources to study job creation and destruction is restricted because of confidentiality reasons, and hence requires a long and complex process of application and approval. As a practical matter, this has deterred many researchers from pursuing research with such data, and has clearly made it difficult to do research in a timely manner. In addition, again because of confidentiality, researchers working with these data sources are restricted in the geographic detail to which they can disaggregate in describing results. And this confidentiality extends to studying and certainly extends to identifying particular

companies. With the NETS data, in contrast, none of these problems arise. The data are accessible and there are not confidentiality restrictions imposed on users.<sup>1</sup>

Our main goal in this paper is to assess the reliability of the NETS data along the following dimensions: (1) measurement of employment levels; (2) measurement of employment change; (3) tracking business relocations; and (4) capture of new business establishments. We provide this detailed assessment because the NETS data should prove useful to researchers in many fields, but it is a new data source of unknown quality, and we know that there are inherent difficulties in tracking business establishments – especially new establishments and those that relocate. In general, we conclude that the NETS is a reliable data source although not without limitations, and we provide some guidance on its use.

We illustrate the usefulness of the NETS by using data for the entire state of California to fully decompose employment change into its six constituent processes, documenting the importance of each in contributing to employment change and its volatility during 1992-2002. Because a principal advantage of the NETS data is the tracking of business establishment relocations, we focus on the role of relocation in employment dynamics. This analysis contributes hard evidence to a policy debate over business relocation that has been entirely speculative and reliant upon anecdotal evidence.

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<sup>1</sup> The NETS data are not freely available, and are not inexpensive. For example, a two-year license for the California file we use in this paper costs \$15,000. But the time plus money costs appear quite favorable, compared to using the alternative data sources.